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SUBJECT: JAPANESE MORNING PRESS HIGHLIGHTS 02/02/07

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3) Prime Minister's Official Residence (Kantei)

Prime Minister's schedule, February 1

NIHON KEIZAI (Page 2) (Full)  
February 2, 2007

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08:06

Met with Deputy Chief Cabinet Secretary Shimomura at the Kantei.

09:06

Met with Finance Minister Omi in the Diet.

09:57

Met Deputy Chief Cabinet Secretary Suzuki at the Kantei, followed by  
Deputy Chief Cabinet Secretary Matoba.

11:00

Lower House Budget Committee meeting.

12:26

Voted by absentee ballot for the Shimonoseki City Assembly election  
in Yamaguchi Prefecture at the Chiyoda Ward Office in Kudan-Minami.

13:00

Lower House Budget Committee meeting.

17:02

Upper House Budget Committee meeting.

17:25

Met with Vice Finance Minister Fujii and Budget Bureau Director  
General Tsuda at the Kantei.

18:18

Met with Kiribati President Tong. Then met with Vice Foreign  
Minister Yachi.

20:06

Returned to the official residence.

4) Fear that Kyuma's "anti-US remarks" could affect Japan-US ties

MAINICHI (Page 5) (Full)  
February 2, 2007

Defense Minister Fumio Kyuma's "anti-US remarks" over the Iraq war  
and the planned relocation of Futenma airfield, a US military base  
in Okinawa Prefecture, are causing controversy. Kyuma called the US  
government's decision on the Iraq "wrong," and he has also referred  
to the possibility of retouching a bilaterally agreed plan to build  
a V-shaped pair of airstrips as a replacement for Futenma airfield.  
There are various views about Kyuma's real intention, with one  
surmising that he thought of the Diet with an eye to extending the  
Iraq Special Measures Law, and another saying that this was  
spadework to get Okinawa's understanding on Futenma relocation.

However, government officials are concerned about repercussions on Japan-US relations.

On Jan. 24, Kyuma said the United States' decision on the Iraq war was "wrong." On Jan. 27, he touched on the issue of Futenma relocation and said: "I've told the United States not to be so arrogant." On Jan. 30, Prime Minister Shinzo Abe met with cabinet ministers, including Kyuma and Foreign Minister Taro Aso, to pull them together on the Futenma issue, and Abe ordered them to coordinate Futenma relocation based on the government's plan.

One government official takes it that Kyuma made those remarks for

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domestic reasons. According to the official, Kyuma considered the New Komeito, which remains cautious about extending the special measures law, and Kyuma's remarks over Futenma relocation were intended to get Okinawa Gov. Hirokazu Nakaima's understanding on the government's plan, because the governor has been calling for the government to revise it. Kyuma is a heavyweight in the defense policy clique and is confident of Japan-US relations, so a government source deems it difficult to silence him.

However, Washington informally asked Tokyo about Kyuma's remarks. In response, the government explained that Kyuma gave the impressions he had before he became a cabinet minister. One Foreign Ministry source fears that criticizing the Iraq war "could strike a nerve with President Bush."

Meanwhile, some lawmakers in the ruling Liberal Democratic Party defended Kyuma. The LDP yesterday held a joint meeting of its defense-related panels, in which former LDP Secretary General Koichi Kato pressured the government, saying: "I wonder why he has to be under fire. It's common sense in the world (that the Bush administration's decision on the Iraq war was wrong)."

##### 5) Debate over Kyuma remarks

SANKEI (Page 5) (Full)  
February 2, 2007

The ruling Liberal Democratic Party yesterday held a joint meeting of its divisions related to national defense at its headquarters, focusing on Defense Minister Fumio Kyuma's recent controversial remarks that have brought about a backlash from the United States. In his recent remarks, Kyuma said US President Bush's decision on the Iraq war was "wrong." One of those in the meeting voiced concerns about the possible impact of these remarks on this summer's election for the House of Councillors as well as Welfare and Labor Minister Hakuo Yanagisawa's gaffe. In the United States, criticism is growing in the Bush administration. Reflecting this, some defended Kyuma.

The US government asked the Japanese government about Kyuma's remarks, and the Japanese government explained that Kyuma stated his "personal view" when the Iraq war started. Kyuma also explained: "I must be careful what I say. I thought I'd better not say anything even though that's my impression."

However, Yoichi Masuzoe, who chairs the policy board of LDP members in the House of Councillors, expressed concerns about repercussions on the Upper House election, saying, "He must explain it to the people in an appropriate way, or this could become a point of contention in the election." Former Defense Agency Director General Yoshinori Ono also noted, "If Japan's participation (in the work of assisting Iraq with its reconstruction) was wrong, that will hurt the pride of Self-Defense Forces members."

Former LDP Secretary General Koichi Kato criticized the United States, saying: "President Bush himself and officials admitted to the mistake, and 60% of the American people are opposed to sending reinforcements to Iraq. Given such a situation, I wonder why only Mr. Kyuma has to get it from the United States." Kato also said, "Mr. Kyuma only spoke of global common sense." With this, Kato defended Kyuma.

6) LDP lawmakers defend Kyuma

ASAHI (Page 4) (Full)  
February 2, 2007

The ruling Liberal Democratic Party yesterday held a joint meeting of its defense-related divisions, in which LDP lawmakers defended Defense Minister Kyuma, who has been under fire for calling the United States' decision on the Iraq war "wrong."

Former LDP Secretary General Koichi Kato said: "In the United States as well, many more people think it was wrong. He only stated the world's common sense." With this, Kato raised a question about the US government's posture. Katsuei Hirasawa, a member of the House of Councillors, also said, "It's strange that the United States expresses displeasure." In the meeting, many supported Kyuma.

However, former Defense Agency Director General Yoshinori Ono raised an objection, saying: "If it (Iraq war) is deemed wrong, what will become of the pride of Self-Defense Forces members (sent to Iraq)?"

7) Extra budget to clear Lower House in absence of opposition members; Abe has no intention to remove Yanagisawa from cabinet post

SANKEI (Top Play) (Excerpts)  
February 2, 2007

The House of Representatives Budget Committee yesterday started deliberations on a supplementary budget for fiscal 2006 with the attendance of only the members of the ruling Liberal Democratic Party and its coalition partner New Komeito since four opposition parties --Minshuto (Democratic Party of Japan), the Japanese Communist Party, the Social Democratic Party, and the People's New Party -- were boycotting the Budget Committee session over Health, Labor and Welfare Minister Hakuo Yanagisawa's comments referring to women as "baby-making machines." During the session, Yanagisawa again apologized for his controversial remarks, but he stated he would not step down from his cabinet post. The ruling coalition intends to adopt a supplementary budget for FY2006 totaling 3.7723 trillion yen, which includes expenditures for emergency disaster measures, today at the committee session and a plenary session of the Lower House.

It is the first time for all opposition parties and parliamentary groups to boycott the budget committee session from the beginning since they did so in 2000. Lower House Budget Committee Chairman Kazuyoshi Kaneko urged the opposition to attend the session, delaying the start by two hours, but the opposition did not show up. The one JCP member on the committee briefly attended the session but walked out before deliberations began, protesting the ruling coalition proceeding with committee debate without members from the opposition parties. The House of Councillors Budget Committee, too, conducted a session to explain the supplementary budget for FY2006 with the opposition parties absenting themselves from the session.

During the Lower House Budget Committee session, Yanagisawa apologized three times. Prime Minister Shinzo Abe stated: "I also apologize profusely for his remarks." He again stressed his intention not to remove Yanagisawa from his cabinet post, saying, "I want him to do his best to regain the public confidence by steadily promoting measures, including ones to counter the dropping

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birthrate."

The largest opposition party Minshuto, meanwhile, confirmed at a meeting of its Diet Affairs Committee members that the party would not attend unless Yanagisawa is dismissed from his post.

8) Speculation about cabinet reshuffle after passage of budget bill emerging in LDP, given concerns about declining cabinet support

ahead of Upper House election

NIHON KEIZAI (Page 2) (Full)  
February 2, 2007

In the Liberal Democratic Party, speculation has been rife that Prime Minister Shinzo Abe will reshuffle his cabinet after the FY 2007 budget bill clears the Diet, possibly around late March or early April. The cabinet has been dogged by a spate of scandals involving cabinet ministers, including a controversial remark by Health, Labor and Welfare Minister Hakuo Yanagisawa, a political funds scandal involving Agriculture, Forestry and Fisheries Minister Toshikatsu Matsuoka, and criticism of the United States by Defense Minister Fumio Kyuma. Behind such speculation is a sense of alarm toward the declining support rates of the Abe administration, with an eye on the House of Councillors election in July.

Referring to a possible reshuffle of the cabinet after the budget bill is passed in the Diet, a senior LDP member said yesterday, "In order for the administration to regain political ground before the Upper House election, it is necessary to form a cabinet focusing on rescuing the nation instead of reward-oriented appointment." This LDP member indicated the necessity of a large-scale reshuffle, saying that if only a limited number of members are replaced, people might think that the prime minister "only touched on the problems."

In an executive meeting of the Koga faction, to which Yanagisawa belongs, a number of participants criticized the proceedings at a meeting of the Tsushima faction on the day before calls for Yanagisawa's resignation grew stronger. One participant claimed: "It is outrageous that (lawmakers) speak about the resignation of a cabinet minister who belongs to another faction. We have never mentioned the problem of (remarks critical of the US by) the defense minister or when Genichiro Sata resigned as state minister in charge of administrative reform."

But Discipline Committee Chairman Takashi Sasagawa of the Tsushima faction only repeated this remark: "I hope the wound will heal before the Upper House election, but opposition parties are trying to reopen it. I wonder if both the prime minister and the health minister will be able to endure the current situation." The Tsushima faction lost three key posts when the Abe administration was formed. Given this, many faction members are hopeful of a cabinet reshuffle.

In view of the schedule, however, it is difficult to carry out a cabinet reshuffle. The current session was convened one week behind the original schedule. In addition, some are doubtful, focusing on the fallout of the Yanagisawa remark, about the passage of the budget bill by the end of this fiscal year. In April, nationwide local elections will be held, and Chinese Premier Wen Jiabao is scheduled to visit Japan. During the Golden Week holidays, a Japan-US summit is planned in the US, so preparations for the summit are also necessary. A reshuffle is a double-edged sword.

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An LDP executive said, tilting his head: "People would take the cabinet reshuffle, if implemented, as an election ploy. In such a case, the prime minister would be exposed to criticism. I do not think the prime minister is considering a cabinet reshuffle."

9) Welfare Minister Yanagisawa's controversial remarks to be settled after Aichi gubernatorial and Kitakyushu mayoral elections; If candidates backed by ruling coalition defeated, calls for Yanagisawa's resignation will become stronger

MAINICHI (Page 5) (Excerpts)  
February 2, 2007

As Prime Minister Shinzo Abe has repeatedly stated that he will not remove Health, Labor and Welfare Minister Hakuo Yanagisawa from his cabinet post, the course of action of Yanagisawa, who made the controversial remarks calling women "baby-making machines," will likely be decided after the Aichi gubernatorial and Kitakyushu mayoral election on Feb. 4. The ruling parties have tentatively

agreed that he does not need to resign. However since tensions are growing with the opposition camp, which has continued to lock horns with the government and ruling coalition, it is unavoidable that calls for Yanagisawa's resignation will become stronger in the ruling camp if the ruling coalition backed candidates are defeated in the Feb. 4 races.

"I ask you for your understanding and cooperation for our position of supporting Minister Yanagisawa and the Abe cabinet," said former Foreign Minister Nobutaka Machimura, chair of the LDP's faction he heads, in a meeting of his faction yesterday.

Machimura has discussed the Yanagisawa issue with the heads of the LDP factions for several days. He underscored a sense of crisis, saying, "If the welfare minister has to resign because of such a matter, the cabinet will collapse." By doing so, he has supported the Prime Minister's Official Residence (Kantei) from inside the LDP in order to make Yanagisawa remain his post. Former Prime Minister Junichiro Koizumi also telephoned yesterday to LDP Secretary General Hidenao Nakagawa, saying, "Don't give into the opposition parties that are boycotting deliberations on the budget that is directly connected with the people's livelihoods." Koizumi told Nakagawa that he would support Abe's position.

During a session yesterday of the House of Representatives Budget Committee, Abe made a statement supporting Yanagisawa: "I want the welfare minister to do his best to regain the public confidence by steadily promoting measures to counter the declining birthrate." He also told reporters about the Aichi gubernatorial and Kitakyushu mayoral races that local residents would decide how their prefecture and city should be in the future through the elections.

Genichiro Sata, then state minister in charge of administrative reform, was forced to quit his post over a money scandal late last year. Abe is worried that if another cabinet minister resigns, his leadership will weaken. Therefore, New Komeito Chief Representative Akihiro Ota made a comment backing Abe: "It is important that (the welfare minister) devote all his energy to his job."

10) New government team to produce countermeasures on income disparity in mid-February, start implementation in FY2007

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NIHON KEIZAI (Page 2) (Excerpts)  
February 2, 2007

The government yesterday held the first meeting of its strategic concept team for enhancing the nation's potential, a panel headed by Chief Cabinet Secretary Shiozaki and tasked with working out measures to deal with the income disparity.

The team decided to compile by mid-February a package of support measures focused on (1) workers' capabilities; (2) support for employment; and (3) small businesses. These measures will be implemented over the three years starting in FY2007 in an intensive way.

The team was established at the instruction of Prime Minister Abe. Although Abe was unwilling to admit the existence of the income-disparity problem, he has judged it necessary to come up with counterarguments to attacks by Minshuto (Democratic Party of Japan) over the social disparity issue in the current Diet session.

The focus of discussion in the team will be on improving the skills of part-time workers and other workers, as well as increasing minimum wages by upgrading the productivity at small businesses.

11) Ozawa: "The income disparity in Japan is the largest in the world;" Shiozaki: "Evidence should be presented"

YOMIURI (Page 2) (Excerpts)  
February 2, 2007

In a representative interpretation at the House of Representatives' plenary session on Jan. 29, Minshuto (Democratic Party of Japan)

President Ozawa said, "The income disparity in Japan is the largest in the world." In reaction, Chief Cabinet Secretary Shiozaki said in a press conference yesterday, "I would like to ask Mr. Ozawa to present evidence."

Shiozaki refuted Ozawa's view, "According to the Gini coefficient, which is the most commonly used index of social disparity, Japan is in the middle among the Group of Seven Nations (G-7)." In a survey of the Organization for Economic Cooperation and Development (OECD), the Gini coefficient of Japan was 0.31, close to the average figure of the 26 countries surveyed and ranking fourth.

In response, Minshuto Acting President Kan said in a press briefing, "The remark by Mr. Ozawa has a sound basis."

12) Kantei team to map out emergency measures to correct social disparity in about two weeks: Focus on assistance for job-seekers

YOMIURI (Page 9) (Excerpts)

February 2, 2007

The government yesterday held the first meeting of the Economic Growth Enhancement Strategy Initiative Team, led by Chief Cabinet Secretary Shiozaki, a panel aiming at improving the income of

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low-income earners, at the Prime Minister's Official Residence. Participants confirmed that emergency measures would be mapped out in about two weeks. The process will involve mapping out specific measures to raise the income level of "freeteters" or job-hopping part-time workers and single-parent families by raising their vocational capability.

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Shiozaki told a news conference yesterday, "The social disparity is a major challenge left behind by the Koizumi reform drive." The Abe cabinet wants to come up with a stance of grappling squarely with the issue of the working poor, who can only earn income below the level required to receive welfare benefits due to widening economic disparities no matter how hard they work.

Reflecting on the lack of integrity in the previous employment, social security and industrial measures caused by bureaucratic sectionalism, the government will aim at compiling a comprehensive human resources investment strategy, which will lead to revitalizing the Japanese economy.

The UK Blair administration's approach to this issue will serve as a useful reference when the panel maps out specific measures by the panel.

The Blair administration in 1998 introduced a new employment policy in a major shift from the previous welfare policy of paying generous unemployment benefits to an employment-assistance-type hiring policy.

Under the policy target "from welfare to employment," it became mandatory for unemployed young people aged 18-24 to take part in the government's employment assistance program in order for them to be qualified to receive unemployment benefits.

13) Another DPJ lawmaker received illegal political fund donations: Shoichi Kondo got 3.2 million yen from pro-Pyongyang companies

SANKEI (Page 2) (Full)

February 2, 2007

It was learned yesterday that the Democratic Party of Japan's (DPJ or Minshuto) Aichi Prefecture No. 3 constituency branch headed by Shoichi Kondo (Aichi No. 3 constituency), who represents the SDP Aichi Chapter, received donations totaling 3.2 million yen from five companies run by a person connected to the pro-Pyongyang General Federation of Korean Residents in Japan (Chongryun or Chosen Soren) in 2002 and 2003 in a suspected violation of the Political Funds Control Law. Told by outsiders that there were allegations of

illegal political donations, Kondo returned all the money by last year.

According to Kondo and the organization's political fund report, the donations were made by pachinko parlor operators in Aichi Prefecture. A person who serves as an executive of a Chongryun-related organization owns these five companies. The donations were reportedly made under the name of the companies.

The Political Fund Control Law prohibits lawmakers from receiving political fund donations from non-Japanese, foreign corporations and organizations consisting mainly of foreigners or foreign corporations.

In a similar incident, it has been pointed out that DPJ lawmaker Giichi Tsunoda, who was elected from a Gumma constituency and resigned as Upper House vice president, received a 500,000 yen donation from the pro-Pyongyang Gumma chamber of commerce and industry for North Korean residents in Japan.

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Kondo said, "I received the donations without properly checking the identity of the donors. I will be careful so that this kind of thing will not happen again."

14) China sounds out Japan about inviting the Crown Prince and Princess to the Beijing Olympics

YOMIURI (Page 1) (Full)  
February 2, 2007

It was learned yesterday that the Chinese government informally sounded out the Japanese government about inviting the Crown Prince and Princess to the 2008 Beijing Olympics. This invitation was relayed via Chinese Ambassador to Japan Wang Yi to Japanese government officials, ruling coalition members and people connected to Japan-China friendship organizations. Upon gauging the response in Japan, China is likely to offer a formal invitation.

According to informed sources, Wang has been energetically exchanging views on the challenges facing Japan and China with various circles in Japan since the beginning of the year in preparation for Premier Wen Jiabao's planned visit in April. In a series of talks, Wang reportedly revealed the idea of inviting the Crown Prince and Princess to the Beijing Olympics and sought indirect support for the idea. In terms of visits to China by the Emperor or imperial family members, a visit to China by the Crown Prince and Princess, if realized, would follow the one by the Emperor and Empress in 1992.

One Japanese government official yesterday indicated that the government would deal with it cautiously, saying: "It has been relayed to us, but we need to see how the situation will go in the coming weeks. It's not yet time to show a certain direction."

15) ODA Council to be merged into Japanese version of US NSC

YOMIURI (Page 4) (Full)  
February 2, 2007

The Overseas Economic Cooperation Council (OECC), which decides the basic strategy of official development assistance (ODA) programs, will be merged into a Japanese version of the US National Security Council (NSC), the establishment of which is aimed at strengthen the Prime Minister's Official Residence's function of making foreign policy and security policy, it was decided yesterday.

The OECC consisting of the prime minister, chief cabinet secretary, foreign minister, finance minister, and minister of economy, trade and industry was set up last April as the control tower in order to unify ODA programs that relevant ministries implemented separately and to use them strategically. The government has determined that in order for the Japanese version of the US NSC to draft a long-term diplomatic and security strategy, it is absolutely necessary to use ODA projects, Japan's important diplomatic tools, and discuss the

matter.

The plan will be submitted to a meeting today of the Council to Strengthen the Kantei's National Security Functions (chaired by Prime Minister Shinzo Abe) as the proposal by former Deputy Chief Cabinet Secretary Nobuo Ishihara. The meeting is expected to approve it.

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16) Five occupations including lawyers to be exempt from obligation to report suspected money laundering in National Police Agency policy shift

ASAHI (Top play) (Excerpts)  
February 2, 2007

In order to prevent money laundering by criminal syndicates, the National Police Agency (NPA) is going to submit to the current Diet session a bill preventing the transfer of illegally earned money (commonly called a gatekeeper bill), which is to obligate legal and accounting experts and others to notify the government of "suspicious transactions." In this regard, the NPA yesterday decided to exempt five occupations -- lawyers, judicial scriveners, administrative scriveners, certified public accountants, and certified tax accountants -- from the obligation to notify the government of suspicious transactions. The Japan Federation of Bar Associations (JFBA) was opposed to that obligation on the ground that if lawmakers "inform" against their clients, the basis of the relationship of trust between lawyers and clients will be shaken.

The NPA's initial idea was to obligate a total of 42 businesses, such as credit card companies, real estate agencies, precious metal dealers, and judicial scriveners, to (1) confirm clients' identity, (2) keep records of transactions for seven years, and (3) notify the government offices of suspicious transactions. Regarding lawyers, the mechanism was that the JFBA would stipulate the obligation of lawyers in its rules, that lawyers would first notify the JFBA, and that the JFBA, if it determined it was necessary to notify the NPA, would do so.

With the NPA's policy shift this time, the five occupations are exempted from the above obligation (3), but except for lawyers, the other four occupations will be obligated to follow the above (1) and (2). The NPA will ask the JFBA to stipulate this in its rules. Those who are engaged in businesses other than those five occupations will be obligated to notify the government if properties they handled in their business operations are suspected of being profits from crimes.

Analysis: Effectiveness of legislation doubtful

Kenji Ogata

The NPA's policy shift was the result of its consideration for lawyers' criticism that the bill is in effect aimed at encouraging them to inform against their clients. Also the policy shift came because priority was given to enactment. On the other hand, cases in which lawyers were exploited by gangsters for their economic crimes have occurred. The effectiveness of this legislation is likely to be questioned in the days ahead.

The primary goal of the Financial Action Task Force (FATF), an inter-governmental body developing and promoting policies to combat money laundering, is to cut off funds for terrorism and illegal gains from criminal syndicates. If the bill is enacted into law, it will serve as a weapon to deal with gangs, among others.

One lawyer who deems it necessary for lawyers to notify the government of suspicious transactions expressed concern: "Lawyers have confidence in society, so they could be exploited by the underground community."

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The president and others of a venture-business firm, who were exposed in February 2006 for phony capital increase, had put 800 million yen borrowed from a gangster with whom they had close ties into a lawyers' bank account. The lawyer was not aware of this fact, but this case indicates exploitation like this could occur.

Lying also behind the policy shift is the indication by the ruling parties that (the NPA's bill) was sloppy. Given that there is a strong anxiety about strengthening police authority, the NPA should not spare any effort to obtain understanding and cooperation about the need for this kind of legislation.

SCHIEFFER